

Warsaw, 28 October 2009

INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 27-28 October 2009

The Council decided to keep the NBP interest rates unchanged, i.e.

- **reference rate at 3.50% on an annual basis;**
 - **lombard rate at 5.00% on an annual basis;**
 - **deposit rate at 2.00% on an annual basis;**
 - **rediscount rate at 3.75% on an annual basis.**
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The latest data point to a further economic activity improvement in the United States and the euro area, even though activity remains subdued. Once again, GDP growth forecasts for 2010 have been slightly revised upwards in both economies. It is still difficult to assess the scale and sustainability of the expected recovery, especially given the persistent problems in the financial sector and the prospect of gradual restraint of stimulus packages.

In major economies the decline in the general price level continued driven by the global economic slowdown and an earlier drop in food and other commodity prices. In turn, crude oil prices in the world markets picked up again.

Data for 2009 Q3 on the Polish economy, including the data on industrial output, construction and assembly production and retail sales, as well as the majority of economic climate indicators signal further improvement in economic activity in that quarter. Unfavourable situation is continuing in the labour market: employment in the enterprise sector is falling, while the unemployment rate is rising. However, this was accompanied by a slightly higher than expected wage growth in enterprises. An adverse effect on economic growth is exerted by the tightening of banks' lending standards, in particular in relation to the enterprise sector.

In September 2009 the annual CPI inflation decreased to 3.4%, i.e. slightly below the upper limit for deviations from the target set at the level of 3.5%, though it remained above the NBP's inflation target of 2.5%. The decline in inflation was mainly driven by a drop in the annual growth of food prices. The annual inflation rate remaining at an elevated level results, to a large extent, from the earlier administered price increases and the depreciation of zloty exchange rate. Persistently high core inflation means that the demand weakening so far has not fully offset the increase of administered prices and the earlier exchange rate depreciation.

The Council got acquainted with the projection of inflation and GDP prepared by the Economic Institute of the NBP. The projection is one of the inputs into the Council's decision-making on the NBP interest rates. In line with the October projection – under assumption of constant interest rates – there is a 50-percent probability that inflation will remain within the range of 3.3–3.5% in 2009 (against 2.8–3.5% in the June projection), 0.8–2.2% in 2010 (against 1.1–3.2%) and 1.1–3.2% in 2011 (against 0.8–3.4%). According to the October projection, there is a 50% probability that the

NBP

annual GDP growth will be within the range of 1.1–1.5% in 2009 (against -0.4–1.1% in the June projection), 0.8–2.8% in 2010 (against 0.2–2.5%) and 2.2–4.2% in 2011 (against 2.4–4.5%).

In the Council's assessment, inflation is likely to remain at an elevated level in the coming months, mainly due to the relatively high annual growth rate of administered prices, including especially energy prices, and food prices. Heightened inflation may also be supported by increase in oil prices, partially neutralised by hitherto zloty appreciation, and possible further growth of administered prices. However, in the medium term low demand pressure and slower growth of labour costs, amid persistent uncertainty regarding the growth outlook, should be leading to inflation decrease.

Having taken the above into account, the Council assesses the probabilities of inflation in the medium term running below or above the inflation target to be balanced. In the Council's view, the expected improvement in the global economic activity and the implemented cuts in the NBP interest rates together with the lowering of the required reserve rate will support the return of the economy to the potential growth path. The Council's decisions in the coming months will take account of the incoming information on the outlook for economic growth and inflation, the situation in the financial markets in Poland and abroad, information on the public finance sector and zloty exchange rate developments.

The Council will continue to analyse the impact of developments in the domestic interbank market on the monetary policy transmission mechanism in Poland.

The Council maintains its view that Poland should join the Exchange Rate Mechanism II and the euro area at the earliest possible date, after achieving the necessary political support for amendments to the Constitution of the Republic of Poland and other legal acts required for euro adoption in Poland.

The Council adopted the *Inflation Report – October 2009*, *Balance of Payments of the Republic of Poland for 2009 Q2* and *Opinion of the Monetary Policy Council on the Draft Budget Act for 2010*.